

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Willow Run Community Schools	County Washtenaw
Audit Date June 30, 2005	Opinion Date September 30, 2005	Date Accountant Report Submitted to State: November 3, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

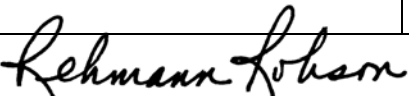
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).	X		

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025		City SAGINAW	State MI
Accountant Signature 		Zip 48605	

# **WILLOW RUN COMMUNITY SCHOOLS**



**Ypsilanti, Michigan**

## **FINANCIAL STATEMENTS and SINGLE AUDIT**

**For the Year Ended  
June 30, 2005**



**REHMANN ROBSON**

*Certified Public Accountants*

# WILLOW RUN COMMUNITY SCHOOLS

For the Year Ended June 30, 2005

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# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



## **INDEPENDENT AUDITORS' REPORT**

September 30, 2005

Board of Education  
Willow Run Community Schools  
Ypsilanti, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **WILLOW RUN COMMUNITY SCHOOLS**, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Willow Run Community Schools, as of June 30, 2005, and the respective changes in financial position thereof and the budgetary comparisons for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 30, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Willow Run Community Schools' basic financial statements. The combining fund statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Willow Run Community Schools. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

## MANAGEMENT'S DISCUSSION and ANALYSIS

## **Willow Run Community Schools Management's Discussion and Analysis**

As management and administrators of Willow Run Community Schools (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of Willow Run Community Schools for the fiscal year ended June 30, 2005.

### **Financial Highlights**

- In compliance with GASB 34 reporting requirements, total assets of the District amounted to \$66,352,422 and total liabilities amounted to \$81,122,715 on June 30, 2005. The total liabilities of the District exceeded total assets at the close of the most recent fiscal year by \$14,770,293 causing a net deficit for reporting purposes.
- The net deficit from the beginning of the year totaled \$9,307,954. The government's total net assets decreased by \$5,462,339 during the current year.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$7,114,794 a decrease of \$16,284,094 in comparison with the prior year; \$15,280,713 of this decrease was in the 2001 Capital Projects Fund, representing the expenditure of bond issue proceeds. The District has no fund balance *available for spending* at the government's discretion (*unreserved fund balance*), with the District's unreserved fund deficit in the General Fund at \$49,064. The entire remaining fund balance of \$7,163,858 is *restricted for spending* and relates to the 2001 Capital Projects Fund (\$5,018,643), General Fund inventories and prepaid expenditures (\$243,333) and Other Governmental Funds (\$1,901,882).
- At the end of the current fiscal year, unreserved fund deficit for the General Fund was \$49,064 or 0.2 percent of the total combined General Fund's expenditures and other financing sources and uses.
- Investments for the future were made by the spending of over \$15.2 million dollars on finalizing the renovation of existing buildings, finalizing construction of the new Middle School, pool and upgrades in technology equipment. These projects were financed by the 2001 Capital Projects Fund.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components:

- 1) Government-wide financial statements
- 2) Fund financial statements
- 3) Notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. This is done by reporting the District's assets and liabilities using the full accrual basis of accounting. Prior to the implementation and adoption of GASB 34, the assets and liabilities of the District were reported using the modified-accrual basis of accounting. In essence, this change in accounting method requires the district to disclose debt issues, borrowings from the State, compensated absences for employees and capital assets less accumulated depreciation on the District's Financial Statements.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets (deficit)*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. However, it should be noted that the triggering event causing the District to be in a net deficit position is the recording of approximately \$19.1 million dollars in loans from the School Bond Loan Fund, an increase of over \$3 million dollars from the prior year. The District has participated in the School Bond Loan Fund since 1985. The obligation to the School Bond Loan Fund represents notes payable to the State of Michigan (as authorized by the 1963 State of Michigan Constitution) for the purposes of paying principal and interest on general obligation bonds of the District issued for capital expenditures. Repayment to the School Bond Loan Fund is required when the millage rate necessary to cover the annual bonded debt service falls below 7 mills. Currently, the District is carrying a debt millage of 10.3 mills.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. In addition, this statement discloses the *non-cash* expenditure of depreciation which affects the ending book value of capital assets.

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include instruction, support services, food service, athletics, community service and interest on long-term debt.

The government-wide financial statements can be found on pages 11-12 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.



Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the 2001 Capital Projects Fund, each of which are considered to be a major fund. Data from the other eight governmental funds (food services, athletics, community service, four separate debt funds, and the Durant capital projects fund) are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided for the General Fund herein to demonstrate compliance with that budget.

The basic governmental fund financial statements can be found on pages 13-20 of this report.

***Fiduciary funds.*** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. Fiduciary funds are commonly referred to as student activity funds. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 21 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The accompanying notes are an integral part of the financial statements and must be reviewed in conjunction with the information reported on the financial statements to provide a full understanding of the District's financial situation. The notes to the financial statements can be found on pages 22-36 of this report.

**Other information.** The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining fund statements and schedules can be found on pages 37-40 of this report.

## Government-wide Financial Analysis

The largest portion of the District's total assets (82 percent) reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment). The District uses these capital assets to provide services to the students it serves; consequently, these assets are *not* available for future spending and are considered fixed. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The second largest portion of the District's total assets (18 percent) reflects its current assets, comprised primarily of receivables and cash and cash equivalents. The receivables are primarily state aid and grant funds due to the District and received within 60 days of year-end. The cash and cash equivalents are primarily assets restricted for use in the ongoing construction project that was approved by voters in 2001. The corresponding debt for the 2001 bond issue has also been recorded in total liabilities and combined with other debt issues, makes up the largest portion of District liabilities representing approximately 95 percent.

### District's Total Assets & Net Deficit

	<b>Governmental Activities</b>	
	<b><u>2003-04</u></b>	<b><u>2004-05</u></b>
Current and other assets	\$ 24,344,316	\$ 12,157,517
Investments	6,111,754	40,762
Capital assets, net	<u>42,557,157</u>	<u>54,154,143</u>
Total assets	<u>73,013,227</u>	<u>66,352,422</u>
Long-term liabilities outstanding	75,982,243	76,926,734
Other liabilities	<u>6,338,938</u>	<u>4,195,981</u>
Total liabilities	<u>82,321,181</u>	<u>81,122,715</u>
Net assets (deficit):		
Invested in capital assets, net of related debt	(12,447,498)	(16,046,710)
Restricted	1,202,622	1,439,026
Unrestricted	<u>1,936,922</u>	<u>(162,609)</u>
<b>Total net assets (deficit)</b>	<b><u>\$ (9,307,954)</u></b>	<b><u>\$ (14,770,293)</u></b>

The government's net deficit increased by \$5,462,339 during the current fiscal year. Most of this change largely reflects the degree to which ongoing expenditures exceeded ongoing revenues, as borrowings from the School Bond Loan Fund were used to support the debt service on the District's outstanding construction projects. Included in the current fiscal year was a freeze in the foundation allowance funding by the State of Michigan. During this period, the District's enrollment on its primary funding pupil-count-day increased by approximately 40 students and stands at 2,709 students.

## District's Changes in Net Assets

	<b>Governmental Activities</b>	
	<b><u>2003-04</u></b>	<b><u>2004-05</u></b>
<b>Revenue:</b>		
Program revenue:		
Charges for services	\$ 512,456	\$ 496,647
Operating grants and contributions	10,444,649	10,695,893
General revenue:		
Property taxes	6,133,525	6,914,783
State school aid	15,526,983	15,291,059
Grants and contributions not restricted to specific programs	620,651	753,295
Unrestricted investment earnings	248,933	366,277
Gain on sale of capital assets	<u>4,500</u>	<u>-</u>
<b>Total revenue</b>	<b><u>33,491,697</u></b>	<b><u>34,517,954</u></b>
 <b>Expenses:</b>		
Instruction	16,818,612	16,851,621
Support services	17,723,722	16,009,342
Food service	1,162,439	1,204,521
Athletics	336,551	414,058
Community service	347,096	199,909
Interest on long-term debt	3,337,392	3,348,169
Unallocated depreciation	<u>1,022,685</u>	<u>1,952,673</u>
<b>Total expenses</b>	<b><u>40,748,497</u></b>	<b><u>39,980,293</u></b>
 <b>Increase (decrease) in net assets</b>	<b>(7,256,800)</b>	<b>(5,462,339)</b>
 Net assets (deficit), beginning of year	<u>(2,051,154)</u>	<u>(9,307,954)</u>
 <b>Net assets (deficit), end of year</b>	<b><u>\$ (9,307,954)</u></b>	<b><u>\$(14,770,293)</u></b>

## Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

*Governmental funds.* The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$7,114,794 a decrease of \$16,284,094 in comparison with the prior year. Approximately 0.2 percent of this total amount (\$40 thousand) constitutes *unreserved fund deficit*, and therefore is unavailable for spending at the government's discretion. The remainder of fund balance is *reserved or restricted* to indicate that it is not available for new spending because the underlying assets are included in inventory and are not available for current expenditure or are restricted and must be used for the ongoing construction project, debt service or other special purposes.

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund deficit of the General Fund was \$49,064, while total fund balance was \$194,269. As a measure of the general fund's stability, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Total fund balance for the combined general fund represents approximately 0.6 percent of total general fund expenditures and outgoing transfers. It is very important to keep in mind that fund balance is a valuable asset used as a stabilizing factor for the financial operations of a school district and should not be viewed as liquid. Rather, fund balance should be viewed as one-time money and should only be used (if necessary) for one-time expenses. Recurring funds are needed to support recurring expenses. Ignoring this fundamental principle can result in serious budget problems.

The fund balance of the District's General Fund decreased by \$2,276,492 during the current fiscal year. This is primarily attributable to continued declining enrollment (over 495 students in the last 5 years) and decreased funding from the State. In addition, the ongoing costs of the last contract settlement with teachers continues to effect the District's ability to meet its obligations. Dramatic increases in utility costs were quite a burden to the District during the year.

### **Combined General Fund Budgetary Highlights**

Differences between the original and final amended general fund budgets were relatively significant. The original budget was based on many unknowns and pending issues. The District records grant funds in full for the year that they are awarded. Equity cannot be built using grant monies. Therefore, the significant variances are attributed to not fully using the grant in this particular year. However, a majority of grants have been carried over into the next fiscal year (as evidenced by the large deferred revenue liability).

Once information became known, subsequent budget amendments recognized these changes to revenue or expenditures and adjustments were made. The original and amended budgets were based on management's estimates. The most significant changes in estimates involved higher than anticipated property taxes, an increase in the anticipated reimbursement from the intermediate school district, the actual increase in student enrollment and pending negotiations with all of the District's bargaining unit.

Differences between the final General Fund budget and actual activity resulted in an unfavorable variance for both revenue and expenditures. Some property taxes that properly belonged in the debt funds were transferred from the General Fund late in the year. The cost-based reimbursement from the intermediate school district came in less than anticipated because the district's reimbursable costs were less than projected. Utility costs came in significantly higher than anticipated. The District experienced a significant decrease to its fund balance.

## Capital Asset and Debt Administration

**Capital assets.** The District's investment in capital assets for its governmental activities as of June 30, 2005, amounted to \$54,154,143 (net of accumulated depreciation of \$14,256,443). This investment in capital assets includes land, buildings, construction in progress, vehicles and equipment. The District's investment in capital assets increased by over \$11.6 million (net) during the current fiscal year. A majority of this increase is attributed to the ongoing construction project.

The major capital asset events during the current fiscal year included the following:

- Completion of the building improvements and new additions for the new Middle School and pool, Cheney Academy, Ford Elementary, Holmes Elementary, and the Willow Run High School alternative education wing.
- Various technology improvements made throughout the District.

### Willow Run Community Schools Capital Assets (net of depreciation) June 30, 2004 & 2005 respectively

Land (historic cost)	\$ 204,719	\$ 204,719
Buildings & Improvements	23,602,170	52,042,979
Vehicles	356,872	200,084
Equipment	502,667	1,526,430
Construction in progress	<u>17,890,729</u>	<u>179,931</u>
<b>Total</b>	<b><u>\$ 42,557,157</u></b>	<b><u>\$ 54,154,143</u></b>

Accumulated depreciation at June 30, 2005 amounted to \$14,256,443 and included current year depreciation expense of \$1,952,673. During the year, the District sold and disposed of \$2,018,808 of fully depreciated equipment.

Additional information on the District's capital assets can be found in note III.C on page 29 of this report.

**Long-term debt.** At the end of the current fiscal year, the District had total bonded debt outstanding of \$76,191,936. These are general obligation bonds and constitute an indebtedness of the District and are payable solely from the Debt Retirement Funds. As of June 30, 2005, these funds had a total balance of \$1,861,120. Future principal and interest payments are paid from collections of the 10.3 mills debt levy.

Additional information on the District's long-term debt can be found in note III.F on pages 31-33 of this report.

## **Factors Bearing on the District's Future**

The following factors were considered in preparing the District's budget for the 2005-06 fiscal year:

- The continued economical downswing in the state, resulting in only an estimated 2% increase in the foundation allowance per student (\$7,258 for 2005-06).
- Ongoing contract negotiations with the following bargaining units (MEA-MSU and MEA-ParaEducators). All contracts have expired on 6/30/04.
- The Teachers' Union (WREA), WRAEA and AFSCME 3451 (wages only) contracts expired on 6/30/05.
- Increases in known and estimated costs – namely, health insurance, workers' compensation insurance, retirement and salary step increases.
- An increase in enrollment consistent with last year's increase.

The District's fund balance position at the end of the 2004-05 year was not anticipated and will have a significant impact on the programs and budget for the 2005-06 year.

## **Requests for Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Ron Ciranna, Interim Superintendent, Willow Run Community Schools, 2171 E. Michigan Ave, Ypsilanti, Michigan 48198.

## BASIC FINANCIAL STATEMENTS

## GOVERNMENT-WIDE FINANCIAL STATEMENTS



**WILLOW RUN COMMUNITY SCHOOLS**  
**Statement of Net Assets**  
**June 30, 2005**

	<b><u>Governmental Activities</u></b>
<b>Assets</b>	
Cash and cash equivalents	\$ 5,788,294
Investments	40,762
Receivables	5,981,980
Prepaid items and other assets	387,243
Capital assets not being depreciated	384,650
Capital assets being depreciated, net	<u>53,769,493</u>
<b>Total assets</b>	<u>66,352,422</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	4,095,414
Deferred revenue	100,567
Long-term debt:	
Due within one year	2,515,135
Due in more than one year	<u>74,411,599</u>
<b>Total liabilities</b>	<u>81,122,715</u>
<b>Net assets (deficit)</b>	
Invested in capital assets, net of related debt	(16,046,710)
Restricted for:	
Debt service	1,398,264
Other purposes	40,762
Unrestricted	<u>(162,609)</u>
<b>Total net assets (deficit)</b>	<u><u>\$ (14,770,293)</u></u>

The accompanying notes are an integral part of these financial statements.

**WILLOW RUN COMMUNITY SCHOOLS**  
**Statement of Activities**  
**For the Year Ended June 30, 2005**

<b><u>Functions / Programs</u></b>	<b><u>Expenses</u></b>	<b><u>Program Revenues</u></b>		<b><u>Net (Expense) Revenue</u></b>
		<b><u>Charges for Services</u></b>	<b><u>Operating Grants and Contributions</u></b>	
Governmental activities:				
Instruction	\$ 16,851,621	\$ 76,145	\$ 9,734,440	\$ (7,041,036)
Supporting services	16,009,342	-	43,975	(15,965,367)
Food service	1,204,521	267,435	916,973	(20,113)
Athletics	414,058	18,085	505	(395,468)
Community service	199,909	134,982	-	(64,927)
Interest on long-term debt	3,348,169	-	-	(3,348,169)
Unallocated depreciation	1,952,673	-	-	(1,952,673)
Total	<u>\$ 39,980,293</u>	<u>\$ 496,647</u>	<u>\$ 10,695,893</u>	<u>(28,787,753)</u>

General revenues:

Property taxes	6,914,783
Unrestricted state aid	15,291,059
Grants and contributions not restricted to specific programs	753,295
Unrestricted investment earnings	<u>366,277</u>
Total general revenues	<u>23,325,414</u>
Change in net assets	(5,462,339)
Net assets (deficit), beginning of year	<u>(9,307,954)</u>
<b>Net assets (deficit), end of year</b>	<u><u>\$ (14,770,293)</u></u>

The accompanying notes are an integral part of these financial statements.

## FUND FINANCIAL STATEMENTS

# WILLOW RUN COMMUNITY SCHOOLS

## Balance Sheet Governmental Funds June 30, 2005

	<b>General Fund</b>	<b>2001 Capital Projects</b>	<b>Other Governmental Funds</b>	<b>Totals</b>
<b><u>ASSETS</u></b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 144,674	\$ 5,188,395	\$ 455,225	\$ 5,788,294
Investments	-	-	40,762	40,762
Accounts receivable	303,189	-	13,135	316,324
Taxes receivable	159,098	-	94,617	253,715
Due from other governments	4,690,465	-	721,476	5,411,941
Due from other funds	-	429	1,876,241	1,876,670
Interfund receivable	-	497,835	-	497,835
Inventories	32,961	-	18,910	51,871
Prepaid items	210,372	-	-	210,372
	<u>210,372</u>	<u>-</u>	<u>-</u>	<u>210,372</u>
<b><u>TOTAL ASSETS</u></b>	<b><u>\$ 5,540,759</u></b>	<b><u>\$ 5,686,659</u></b>	<b><u>\$ 3,220,366</u></b>	<b><u>\$ 14,447,784</u></b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
<b>Liabilities</b>				
Interfund payable	\$ -	\$ -	\$ 497,835	\$ 497,835
Accounts payable	297,852	668,016	36,723	1,002,591
Accrued payroll	1,472,513	-	4,596	1,477,109
Accrued liabilities	912,655	-	1,050	913,705
Due to other funds	1,876,670	-	-	1,876,670
Deferred revenue	547,647	-	778,280	1,325,927
Notes payable	239,153	-	-	239,153
	<u>239,153</u>	<u>-</u>	<u>-</u>	<u>239,153</u>
Total liabilities	<u>5,346,490</u>	<u>668,016</u>	<u>1,318,484</u>	<u>7,332,990</u>
<b>Fund balances</b>				
Reserved for inventories and prepaids	243,333	-	-	243,333
Unreserved:				
Designated for adult education	100,795	-	-	100,795
Undesignated (deficit)	(149,859)	5,018,643	-	4,868,784
Undesignated, reported in nonmajor:				
Debt service funds	-	-	1,861,120	1,861,120
Capital projects funds	-	-	40,762	40,762
	<u>-</u>	<u>-</u>	<u>40,762</u>	<u>40,762</u>
Total fund balances	<u>194,269</u>	<u>5,018,643</u>	<u>1,901,882</u>	<u>7,114,794</u>
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<b><u>\$ 5,540,759</u></b>	<b><u>\$ 5,686,659</u></b>	<b><u>\$ 3,220,366</u></b>	<b><u>\$ 14,447,784</u></b>

The accompanying notes are an integral part of these financial statements.

**WILLOW RUN COMMUNITY SCHOOLS**  
**Reconciliation of Fund Balances on the Balance Sheet**  
**for Governmental Funds to Net Assets of**  
**Governmental Activities on the Statement of Net Assets**  
**June 30, 2005**

Fund balances - total governmental funds	\$ 7,114,794
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Amounts reported for governmental activities in the statement of net assets are different

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets not being depreciated	384,650
Add: capital assets being depreciated	68,025,936
Deduct: accumulated depreciation	(14,256,443)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred long-term Durant Settlement receivable	972,440
Add: deferred delinquent property taxes receivable	252,920

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: bonds payable	(76,191,936)
Add: unamortized bond premium and issuance costs	125,000
Deduct: accrued interest on bonds payable	(462,856)
Deduct: compensated absences	(734,798)

Net assets of governmental activities (deficit)	\$ (14,770,293)
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The accompanying notes are an integral part of these financial statements.

# WILLOW RUN COMMUNITY SCHOOLS

## Statement of Revenue, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended June 30, 2005

	<u>General Fund</u>	<u>2001 Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
<b>Revenue</b>				
Local sources	\$ 6,078,067	\$ 314,362	\$ 4,334,384	\$ 10,726,813
State sources	19,361,668	-	81,928	19,443,596
Federal sources	3,591,297	-	796,672	4,387,969
	<u>29,031,032</u>	<u>314,362</u>	<u>5,212,984</u>	<u>34,558,378</u>
<b>Expenditures</b>				
Instruction	15,160,261	1,727,707	-	16,887,968
Supporting services	14,907,026	-	-	14,907,026
Food service activities	-	-	1,203,451	1,203,451
Athletic activities	-	-	413,268	413,268
Community service	-	-	199,415	199,415
Debt service:				
Principal repayment	-	-	2,460,000	2,460,000
Interest and fiscal charges	-	-	2,877,928	2,877,928
Bond issuance costs	-	-	207,865	207,865
Capital outlay	762,083	13,867,368	-	14,629,451
	<u>30,829,370</u>	<u>15,595,075</u>	<u>7,361,927</u>	<u>53,786,372</u>
Revenue over (under) expenditures	<u>(1,798,338)</u>	<u>(15,280,713)</u>	<u>(2,148,943)</u>	<u>(19,227,994)</u>
<b>Other financing sources (uses)</b>				
Issuance of long-term debt	-	-	18,536,035	18,536,035
Bond premium	-	-	1,496,794	1,496,794
Payment to refunded bond escrow agent	-	-	(17,088,929)	(17,088,929)
Transfers in from other funds	-	-	478,154	478,154
Transfers out to other funds	(478,154)	-	-	(478,154)
	<u>(478,154)</u>	<u>-</u>	<u>3,422,054</u>	<u>2,943,900</u>
Net change in fund balances	(2,276,492)	(15,280,713)	1,273,111	(16,284,094)
Fund balance, beginning of year	<u>2,470,761</u>	<u>20,299,356</u>	<u>628,771</u>	<u>23,398,888</u>
<b>Fund balance, end of year</b>	<u><u>\$ 194,269</u></u>	<u><u>\$ 5,018,643</u></u>	<u><u>\$ 1,901,882</u></u>	<u><u>\$ 7,114,794</u></u>

The accompanying notes are an integral part of these financial statements.

**WILLOW RUN COMMUNITY SCHOOLS**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Change in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2005**

Net change in fund balances - total governmental funds \$ (16,284,094)

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	13,549,659
Deduct: depreciation expense	(1,952,673)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Add: change in deferred property taxes and special assessments	131,187
Deduct: payments received on long-term Durant Settlement receivable	(103,576)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities	2,460,000
Deduct: proceeds from issuance of long-term liabilities	(18,536,035)
Deduct: bond premium	(1,496,794)
Add: payment to refunding bond escrow agent	17,088,929
Add: bond issuance costs	207,865

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct: increase in accrued interest payable on bonds	(470,241)
Deduct: increase in the accrual for compensated absences	(56,566)

Change in net assets of governmental activities	\$ (5,462,339)
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The accompanying notes are an integral part of these financial statements.

**WILLOW RUN COMMUNITY SCHOOLS**  
**Statement of Revenue, Expenditures and Changes in Fund Balance**  
**General Fund**  
**Budget and Actual**  
**For the Year Ended June 30, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenue</b>				
Local sources:				
Property tax levy	\$ 2,764,810	\$ 3,285,203	\$ 2,921,017	\$ (364,186)
Interest	15,000	35,500	39,490	3,990
Act 18 funds	2,176,940	2,444,807	2,168,473	(276,334)
Other	900,375	996,175	949,087	(47,088)
Total revenue from local sources	<u>5,857,125</u>	<u>6,761,685</u>	<u>6,078,067</u>	<u>(683,618)</u>
State sources:				
State school aid - unrestricted	15,494,173	15,284,964	15,291,059	6,095
Special education	1,590,000	1,708,842	1,727,280	18,438
At-Risk	1,170,057	1,203,720	1,185,335	(18,385)
Early child	280,500	280,500	194,700	(85,800)
Adult education	75,458	75,458	72,764	(2,694)
Durant	103,576	103,576	103,576	-
Other	890,569	894,654	786,954	(107,700)
Total revenue from state sources	<u>19,604,333</u>	<u>19,551,714</u>	<u>19,361,668</u>	<u>(190,046)</u>
Federal sources:				
Title I	1,519,520	1,389,958	1,000,794	(389,164)
Title II	457,791	429,201	174,965	(254,236)
Title V	57,140	52,718	10,533	(42,185)
Safe and drug free schools	28,309	4,422	20,227	15,805
CSA - Headstart	600,226	589,172	536,496	(52,676)
Class size reduction	652,326	652,326	649,634	(2,692)
Special education	596,056	596,056	658,300	62,244
Other	76,435	555,357	540,348	(15,009)
Total revenue from federal sources	<u>3,987,803</u>	<u>4,269,210</u>	<u>3,591,297</u>	<u>(677,913)</u>
Total revenue	<u>29,449,261</u>	<u>30,582,609</u>	<u>29,031,032</u>	<u>(1,551,577)</u>

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**WILLOW RUN COMMUNITY SCHOOLS**  
**Statement of Revenue, Expenditures and Changes in Fund Balance**  
**General Fund**  
**Budget and Actual - Continued**  
**For the Year Ended June 30, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Expenditures</b>				
Instruction:				
Basic programs:				
Elementary	\$ 4,526,391	\$ 4,782,154	\$ 4,908,038	\$ 125,884
Junior high	2,337,125	2,450,589	2,490,404	39,815
High school	2,718,962	2,882,581	2,926,087	43,506
Summer school	153,056	34,926	66,469	31,543
Preschool	589,305	526,672	518,238	(8,434)
Other	317,219	327,778	324,433	(3,345)
Total basic programs	<u>10,642,058</u>	<u>11,004,700</u>	<u>11,233,669</u>	<u>228,969</u>
Added needs:				
Special education	2,327,526	2,329,872	2,198,563	(131,309)
Compensatory education	1,710,322	838,740	746,849	(91,891)
Other	421,749	344,074	310,632	(33,442)
Total added needs	<u>4,459,597</u>	<u>3,512,686</u>	<u>3,256,044</u>	<u>(256,642)</u>
Adult education:				
Basic	3,720	3,720	-	(3,720)
Secondary	523,248	499,253	438,888	(60,365)
Total adult education	<u>526,968</u>	<u>502,973</u>	<u>438,888</u>	<u>(64,085)</u>
Transfers to other districts	<u>235,000</u>	<u>106,775</u>	<u>231,660</u>	<u>124,885</u>
Total instruction	<u>15,863,623</u>	<u>15,127,134</u>	<u>15,160,261</u>	<u>33,127</u>
Supporting services:				
Pupil Services:				
Attendance	26,962	27,176	29,583	2,407
Guidance	340,904	353,149	383,140	29,991
Health services	197,768	198,590	189,377	(9,213)
Psychological services	249,959	266,053	262,548	(3,505)
Speech pathology audiology	544,476	366,052	454,551	88,499
Social work services	719,660	708,416	663,857	(44,559)
Teacher consultants	1,134,060	858,919	882,735	23,816
Other	563,296	505,296	683,869	178,573
Total pupil services	<u>3,777,085</u>	<u>3,283,651</u>	<u>3,549,660</u>	<u>266,009</u>

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**WILLOW RUN COMMUNITY SCHOOLS**  
**Statement of Revenue, Expenditures and Changes in Fund Balance**  
**General Fund**  
**Budget and Actual - Continued**  
**For the Year Ended June 30, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Expenditures (continued)</b>				
Supporting services: (continued)				
Instructional Staff:				
Improvement of instruction	\$ 763,301	\$ 1,532,035	\$ 869,901	\$ (662,134)
Library	420,359	351,772	328,289	(23,483)
Computer assisted instruction	533,219	544,131	510,394	(33,737)
Supervision and direction	925,378	930,746	873,237	(57,509)
Other educational staff services	-	-	-	-
Total instructional staff	<u>2,642,257</u>	<u>3,358,684</u>	<u>2,581,821</u>	<u>(776,863)</u>
General administration:				
Board of education	129,680	164,030	189,660	25,630
Executive administration	<u>243,599</u>	<u>265,634</u>	<u>258,607</u>	<u>(7,027)</u>
Total general administration	<u>373,279</u>	<u>429,664</u>	<u>448,267</u>	<u>18,603</u>
School administration:				
Office of the principal	<u>1,513,286</u>	<u>1,652,394</u>	<u>1,735,669</u>	<u>83,275</u>
Business services:				
Fiscal services	351,387	366,879	363,301	(3,578)
Operation and maintenance of plant	2,875,992	2,930,220	3,558,829	628,609
Pupil transportation services	1,282,185	1,287,334	1,234,671	(52,663)
Internal services	3,000	3,000	2,708	(292)
Other	<u>365,000</u>	<u>295,000</u>	<u>266,917</u>	<u>(28,083)</u>
Total business services	<u>4,877,564</u>	<u>4,882,433</u>	<u>5,426,426</u>	<u>543,993</u>
Staff services	<u>1,182,155</u>	<u>1,171,008</u>	<u>1,165,183</u>	<u>(5,825)</u>
Total supporting services	<u>14,365,626</u>	<u>14,777,834</u>	<u>14,907,026</u>	<u>129,192</u>

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**WILLOW RUN COMMUNITY SCHOOLS**  
**Statement of Revenue, Expenditures and Changes in Fund Balance**  
**General Fund**  
**Budget and Actual - Concluded**  
**For the Year Ended June 30, 2005**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Actual Over (Under) Final Budget</b>
<b>Expenditures (concluded)</b>				
Capital outlay:				
Instruction:				
Basic programs	\$ 71,883	\$ 262,000	\$ 259,965	\$ (2,035)
Adult education	600	600	488	(112)
Supporting services:				
Instructional staff	3,086	476,422	475,844	(578)
General administration	1,000	1,000	951	(49)
School administration	5,000	2,600	1,061	(1,539)
Business services	21,000	24,900	23,774	(1,126)
Total capital outlay	109,569	767,522	762,083	(5,439)
Total expenditures	30,338,818	30,672,490	30,829,370	156,880
Revenue over (under) expenditures	(889,557)	(89,881)	(1,798,338)	(1,708,457)
<b>Other financing sources (uses)</b>				
Proceeds from sale of capital assets	2,500	-	-	-
Transfers out	(346,900)	(408,040)	(478,154)	70,114
Total other financing sources (uses)	(344,400)	(408,040)	(478,154)	70,114
Net change in fund balance	(1,233,957)	(497,921)	(2,276,492)	(1,778,571)
Fund balance, beginning of year	2,470,761	2,470,761	2,470,761	-
<b>Fund balance, end of year</b>	<b>\$ 1,236,804</b>	<b>\$ 1,972,840</b>	<b>\$ 194,269</b>	<b>\$ (1,778,571)</b>

The accompanying notes are an integral part of these financial statements.

**WILLOW RUN COMMUNITY SCHOOLS**  
**Statement of Fiduciary Assets and Liabilities**  
**June 30, 2005**

	<u><b>Agency Fund</b></u>
<b>Assets</b>	
Cash and cash equivalents	\$ 183,126
Accounts receivable	<u>348</u>
 Total assets	 <u><u>\$ 183,474</u></u>
 <b>Liabilities</b>	
Due to student groups	 <u><u>\$ 183,474</u></u>

The accompanying notes are an integral part of these financial statements.

## NOTES to the FINANCIAL STATEMENTS

# WILLOW RUN COMMUNITY SCHOOLS

## Notes to the Financial Statements

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting entity

Willow Run Community Schools (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statements No. 14 and No. 39 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

#### B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended 2005.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

#### C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. However, agency funds do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

# WILLOW RUN COMMUNITY SCHOOLS

## Notes to the Financial Statements

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Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *2001 capital projects fund* accounts for the construction of a new middle school building, as well as acquisition of capital assets and renovation of certain other District facilities. These projects are funded by a general obligation unlimited tax bond issue.

Additionally, the District reports the following fund types:

The *special revenue funds* are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes, where there is a need to determine the results of operations.

The *debt service* funds are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

The *capital projects* funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and improvements.

The *agency fund* accounts for assets held for other groups and organizations and is custodial in nature.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

# WILLOW RUN COMMUNITY SCHOOLS

## Notes to the Financial Statements

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### D. Assets, liabilities and equity

#### 1. *Deposits and investments*

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the District are reported at fair value.

#### 2. *Receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

#### 3. *Inventories and prepaid items*

All inventories are valued at cost using the first-in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

#### 4. *Capital assets*

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land and improvements	0-20
Buildings	25-50
Machinery and equipment	5-20
Licensed vehicles	6



# WILLOW RUN COMMUNITY SCHOOLS

## Notes to the Financial Statements

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### 5. *Compensated absences*

It is the District's policy to permit employees to accumulate various earned but unused vacation and sick pay benefits. These are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Benefits are accrued based on various contract stipulations and lengths of service for the various bargaining units. In addition, the District's teacher's bargaining units are entitled to severance payouts upon separation from the District. Payouts of \$6,000 are available based upon certain retirement criteria for each bargaining unit.

### 6. *Long-term obligations*

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received in debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

### 7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

# WILLOW RUN COMMUNITY SCHOOLS

## Notes to the Financial Statements

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### II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

#### A. Budgetary information

The General and Special Revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted annually on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the General and Special Revenue Funds are adopted on a functional basis.

All annual appropriations lapse at fiscal year end.

#### B. Excess of expenditures over appropriations

For the year ended June 30, 2005, expenditures in the General Fund exceed appropriations in basic programs, transfers to other districts, pupil services, general administration, school administration, business services, and transfers out by \$228,969, \$124,885, \$266,009, \$18,603, \$83,275, \$543,993, and \$70,114, respectively. These over-expenditures were funded by available fund balance in the General Fund.

### III. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

##### Statement of Net Assets

Cash and cash equivalents	\$ 5,788,294
Investments	40,762

##### Statement of Fiduciary Net Assets

Cash and cash equivalents	<u>183,126</u>
	<u><b>\$ 6,012,182</b></u>

These balances are categorized for note disclosures as follows:

Cash on hand	\$ 2,450
Deposits	5,730,720
Investments	<u>279,012</u>
	<u><b>\$ 6,012,182</b></u>

# WILLOW RUN COMMUNITY SCHOOLS

## Notes to the Financial Statements

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### Statutory Authority

Michigan law authorizes the District to deposit and invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- (b) Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy allow for all of these types of investments.

### Deposits and investments

The School District chooses to disclose its investments by specifically identifying each. As of year end, the School District had the following deposits and investments.

<u>Deposit/Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Checking/savings accounts	n/a	\$ 5,730,720	n/a
Citizens Bank Sweep Accounts	n/a	630,441	AAA
Michigan Liquid Asset Fund (net of outstanding checks)	n/a	(352,502)	S&P-AAAm
Standard Federal Public Investment Trust	n/a	<u>1,073</u>	n/a
		<u><b>\$ 6,009,732</b></u>	

# WILLOW RUN COMMUNITY SCHOOLS

## Notes to the Financial Statements

### Deposit and investment risk

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment credit risk. Credit risk ratings on investments are noted above.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$5,527,079 of the District's bank balance of \$5,753,131 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

### B. Receivables

	Governmental Activities			Fiduciary Funds	Amounts Not Expected to be Collected Within One Year
	General	Nonmajor Funds	Total		
<b>Receivables:</b>					
Accounts	\$ 303,189	\$ 13,135	\$ 316,324	\$ 348	\$ -
Taxes	159,098	94,617	253,715	-	-
Intergovernmental	4,379,737	59,764	4,439,501	-	-
Durant Settlement	310,728	661,712	972,440	-	818,729
<b>Total receivables</b>	<b>\$ 5,152,752</b>	<b>\$ 829,228</b>	<b>\$ 5,981,980</b>	<b>\$ 348</b>	<b>\$ 818,729</b>

# WILLOW RUN COMMUNITY SCHOOLS

## Notes to the Financial Statements

### C. Capital assets

Capital assets activity for the year ended June 30, 2005 was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
Capital assets not being depreciated:				
Land	\$ 204,719	\$ -	\$ -	\$ 204,719
Construction in progress	17,890,729	12,325,185	(30,035,983)	179,931
Total capital assets not being depreciated	<u>18,095,448</u>	<u>12,325,185</u>	<u>(30,035,983)</u>	<u>384,650</u>
Capital assets being depreciated:				
Buildings	34,423,269	25,688,761	(1,878,208)	58,233,822
Improvements	1,353,958	4,347,222	-	5,701,180
Furniture & Equipment	1,449,764	1,224,474	(140,600)	2,533,638
Vehicles	1,557,296	-	-	1,557,296
Total capital assets being depreciated	<u>38,784,287</u>	<u>31,260,457</u>	<u>(2,018,808)</u>	<u>68,025,936</u>
Accumulated depreciation:				
Buildings	11,876,924	1,429,476	(1,878,208)	11,428,192
Improvements	298,132	165,698	-	463,830
Furniture & Equipment	947,097	200,711	(140,600)	1,007,208
Vehicles	1,200,425	156,788	-	1,357,213
Total accumulated depreciation	<u>14,322,578</u>	<u>1,952,673</u>	<u>(2,018,808)</u>	<u>14,256,443</u>
Capital assets being depreciated, net	<u>24,461,709</u>	<u>29,307,784</u>	<u>-</u>	<u>53,769,493</u>
<b>Capital assets, net</b>	<b><u>\$ 42,557,157</u></b>	<b><u>\$ 41,632,969</u></b>	<b><u>\$ (30,035,983)</u></b>	<b><u>\$ 54,154,143</u></b>

Depreciation expense of \$1,952,673 was charged to the function "unallocated depreciation".

# WILLOW RUN COMMUNITY SCHOOLS

## Notes to the Financial Statements

### D. Payables

Accounts payable and accrued liabilities as of June 30, 2005 for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	<b>General Fund</b>	<b>2001 Capital Projects</b>	<b>Nonmajor Funds</b>	<b>Total</b>
<b>Fund Financial Statements:</b>				
Accounts payable	\$ 297,852	\$ 668,016	\$ 36,723	\$ 1,002,591
Salaries and benefits payable	1,472,513	-	4,596	1,477,109
Accrued expenditures	912,655	-	1,050	913,705
Notes payable	<u>239,153</u>	<u>-</u>	<u>-</u>	<u>239,153</u>
	<b><u>\$ 2,922,173</u></b>	<b><u>\$ 668,016</u></b>	<b><u>\$ 42,369</u></b>	3,632,558
<b>District-Wide Financial Statements:</b>				
Accrued interest on long-term debt				<u>462,856</u>
				<b><u>\$ 4,095,414</u></b>

### E. Interfund receivables, payables and transfers

At June 30, 2005, interfund receivables and payables in the fund financial statements consisted of the following:

	<b>Due From Other Funds</b>	<b>Due To Other Funds</b>
General Fund	\$ -	\$ 1,876,670
2001 Capital Projects	429	-
Other Governmental Funds	<u>1,876,241</u>	<u>-</u>
	<b><u>\$ 1,876,670</u></b>	<b><u>\$ 1,876,670</u></b>
	<b>Interfund Receivable</b>	<b>Interfund Payable</b>
2001 Capital Projects	\$ 497,835	\$ -
Food Service	-	53,735
Debt Service 2001	<u>-</u>	<u>444,100</u>
	<b><u>\$ 497,835</u></b>	<b><u>\$ 497,835</u></b>

# WILLOW RUN COMMUNITY SCHOOLS

## Notes to the Financial Statements

The District often reports interfund balances between many of its funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

For the year ended June 30, 2005, interfund transfers consisted of the following:

### Transfer from General Fund to:

Non-major funds:	
Food Services	\$ 19,043
Athletics	394,678
Community Services	<u>64,433</u>
	<u><b>\$ 478,154</b></u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended June 30, 2005, the District transferred funds to subsidize the food services fund, athletics program and community services programs.

## F. Long-term debt

The following is a summary of bond, note, and compensated absence transactions of the District for the year ended June 30, 2005:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental activities</b>					
General obligation bonds	\$59,421,712	\$ 15,800,000	\$ 18,135,000	\$57,086,712	\$ 2,515,135
School bond loan fund	15,882,299	3,222,925	-	19,105,224	-
Compensated absences	<u>678,232</u>	<u>56,566</u>	<u>-</u>	<u>734,798</u>	<u>-</u>
	<u><b>\$ 75,982,243</b></u>	<u><b>\$19,079,491</b></u>	<u><b>\$18,135,000</b></u>	<u><b>\$76,926,734</b></u>	<u><b>\$2,515,135</b></u>

# WILLOW RUN COMMUNITY SCHOOLS

## Notes to the Financial Statements

Bonds payable at June 30, 2005, are comprised of the following issues:

**General Obligation Bonds:**

\$10,515,000 1996 Building and Site Bonds, due in annual installments of \$65,000 to \$790,000 through the year 2018; interest at 3.4% to 5.0% \$ 8,485,000

\$5,325,000 2002 Refunding Bonds, due in annual installments of \$91,536 to \$647,065 through the year 2010; interest at 1.65% to 3.80% 2,815,000

\$50,000,000 2002 Building & Site Bonds, due in annual installments of \$2,100,000 to \$4,693,504 through year 2031; interest at 4.50% to 5.50% 29,325,000

\$15,800,000 2005 Refunding Bonds, due in annual installments of \$700,938 to \$2,284,250 through year 2020 15,800,000

\* \$1,035,759 1998 Durant School Improvement Bonds, due in annual installments of \$45,670 to \$106,168 through the year 2013; interest at 4.76% 661,712

**\$ 57,086,712**

\* The Durant School Improvement Bonds are serviced from funds made available to Michigan School Districts by an annual appropriation by the Michigan State Legislature. If the Legislature does not appropriate the funding required, the District is not liable to pay the debt service.

Annual debt service requirements to maturity for general obligation bonds are as follows:

<b>Year Ended June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2006	2,515,135	3,475,672	5,990,807
2007	2,462,509	3,491,334	5,953,843
2008	2,415,023	3,394,511	5,809,534
2009	2,372,643	3,291,313	5,663,956
2010	2,297,447	3,271,373	5,568,820
2011-2015	11,393,955	6,621,227	18,015,182
2016-2020	11,805,000	1,691,750	13,496,750
2021-2025	9,875,000	4,468,750	14,343,750
2026-2030	9,950,000	1,996,250	11,946,250
2031	2,000,000	100,000	2,100,000
	<u>\$ 57,086,712</u>	<u>\$ 31,802,180</u>	<u>\$ 88,888,892</u>



# WILLOW RUN COMMUNITY SCHOOLS

## Notes to the Financial Statements

The School Bond Loan Fund represents amounts borrowed from the State of Michigan School Bond loan program to supplement property tax revenue for making payments on the District's general obligation bonds. Although interest accrues each year, no payment is due until such time as the District's property tax revenue is sufficient to support the Debt Service requirements on the general obligation bonds. Changes to the School Bond Loan Fund for the year ended June 30, 2005, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Beginning balance	\$ 12,767,467	\$ 3,114,832	\$ 15,882,299
Additions	2,736,035	486,890	3,222,925
Deletions	<u>-</u>	<u>-</u>	<u>-</u>
Ending balance	<u>\$ 15,503,502</u>	<u>\$ 3,601,722</u>	<u>\$ 19,105,224</u>

Compensated absences are generally liquidated by the general fund.

*Advance Refunding.* In the current and prior years, the District issued \$15,800,000 and \$21,335,000, respectively, of general obligation refunding bonds to provide resources to purchase U.S. Government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments on \$36,220,000 of refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. The balance of these defeased bonds outstanding as of June 30, 2005 was \$18,525,000.

The current year refunding was undertaken to reduce future debt service payments (principal and interest) by \$5,362,960.

### G. Short-term debt – notes payable

The District issues state aid notes in advance of state aid collections, depositing the proceeds in its general fund. These notes are necessary because the District must maintain cash on hand for operations, whereas collections from state aid decrease significantly each November.

Short-term debt activity for the year ended June 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
State aid notes	<u>\$ 153,329</u>	<u>\$ 1,750,000</u>	<u>\$ 1,664,176</u>	<u>\$ 239,153</u>

The state aid notes were due July 21, 2005.

# **WILLOW RUN COMMUNITY SCHOOLS**

## **Notes to the Financial Statements**

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### **H. Commitments and contingencies**

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the District.

As is the case with other entities, the District faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2005.

The District is obligated for construction contracts relating to building projects in the amount of \$627,947 at June 30, 2005.

## **IV. OTHER INFORMATION**

### **A. Risk management**

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty and health claims and participates in the Middle Cities Association (risk pool) for claims relating to employee injuries / workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

### **B. Property taxes**

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of December 1 of the following year. Taxes are levied by Superior and Ypsilanti Townships on July 1. Each of the townships has boundaries that include property within the District. All levies become delinquent on February 14. The Delinquent Tax Revolving Fund of Washtenaw County advances delinquent real taxes to the District.

# WILLOW RUN COMMUNITY SCHOOLS

## Notes to the Financial Statements

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### C. Defined benefit pension plan

#### Plan Description

The Willow Run Community Schools contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

#### Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The Willow Run Community Schools is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 14.87% of annual covered payroll. The contribution requirements of plan members and the Willow Run Community Schools are established by Michigan State statute and may be amended only by action of the State Legislature. The School District's contributions to MPERS for the years ended June 30, 2005, 2004 and 2003 were \$2,525,059, \$2,354,717 and \$2,874,610, respectively, equal to the required contributions for each year.

# WILLOW RUN COMMUNITY SCHOOLS

## Notes to the Financial Statements

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### **Other Postemployment Benefits**

Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage's for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

### **D. Bonded Construction Costs**

The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of §1351a of the Michigan Revised School Code.

### **E. Subsequent Event**

In August 2005, the District borrowed \$1,800,000 from the Michigan Municipal Bond Authority on a short-term state aid note payable. The notes, which bear interest at a rate of 2.87%, are due one year from the date of issuance.

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COMBINING AND INDIVIDUAL FUND  
FINANCIAL STATEMENTS

# WILLOW RUN COMMUNITY SCHOOLS

## Combining Balance Sheet Nonmajor Governmental Funds June 30, 2005

	<u>Special Revenue</u>			<u>1992</u>
	<u>Food Services</u>	<u>Athletics</u>	<u>Community Services</u>	<u>Debt Service</u>
<b><u>ASSETS</u></b>				
<b>Assets</b>				
Cash and cash equivalents	\$ -	\$ 2,673	\$ 4,005	\$ 240,720
Investments	-	-	-	-
Accounts receivable	11,442	-	1,693	-
Taxes receivable	-	-	-	53,986
Due from other governments	59,764	-	-	-
Due from other funds	-	-	-	80,363
Inventories	18,910	-	-	-
<b><u>TOTAL ASSETS</u></b>	<b><u>\$ 90,116</u></b>	<b><u>\$ 2,673</u></b>	<b><u>\$ 5,698</u></b>	<b><u>\$ 375,069</u></b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
<b>Liabilities</b>				
Interfund payable	\$ 53,735	\$ -	\$ -	\$ -
Accounts payable	33,565	2,673	485	-
Accrued payroll	354	-	4,242	-
Accrued liabilities	79	-	971	-
Deferred revenue	2,383	-	-	57,405
Total liabilities	90,116	2,673	5,698	57,405
<b>Fund balances</b>				
Unreserved, undesignated	-	-	-	317,664
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<b><u>\$ 90,116</u></b>	<b><u>\$ 2,673</u></b>	<b><u>\$ 5,698</u></b>	<b><u>\$ 375,069</u></b>

Debt Service			Capital Projects	
1996 Debt Service	Durant Debt Service	2001 Debt Service	Durant Capital Projects	Totals
\$ 207,827	\$ -	\$ -	\$ -	\$ 455,225
-	-	-	40,762	40,762
-	-	-	-	13,135
7,647	-	32,984	-	94,617
-	661,712	-	-	721,476
71,906	-	1,723,972	-	1,876,241
-	-	-	-	18,910
<u>\$ 287,380</u>	<u>\$ 661,712</u>	<u>\$ 1,756,956</u>	<u>\$ 40,762</u>	<u>\$ 3,220,366</u>

\$ -	\$ -	\$ 444,100	\$ -	\$ 497,835
-	-	-	-	36,723
-	-	-	-	4,596
-	-	-	-	1,050
10,687	661,712	46,093	-	778,280
10,687	661,712	490,193	-	1,318,484
276,693	-	1,266,763	40,762	1,901,882
<u>\$ 287,380</u>	<u>\$ 661,712</u>	<u>\$ 1,756,956</u>	<u>\$ 40,762</u>	<u>\$ 3,220,366</u>

**WILLOW RUN COMMUNITY SCHOOLS**  
**Combining Statement of Revenue, Expenditures**  
**and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2005**

	<u>Special Revenue</u>			<u>1992</u>
	<u>Food</u>	<u>Athletics</u>	<u>Community</u>	<u>Debt</u>
	<u>Services</u>		<u>Services</u>	<u>Service</u>
<b>Revenue</b>				
Local sources	\$ 305,808	\$ 18,590	\$ 134,982	\$ 677,111
State sources	81,928	-	-	-
Federal sources	796,672	-	-	-
Total revenue	<u>1,184,408</u>	<u>18,590</u>	<u>134,982</u>	<u>677,111</u>
<b>Expenditures</b>				
Food services	1,203,451	-	-	-
Athletics	-	413,268	-	-
Community services	-	-	199,415	-
Debt service:				
Principal	-	-	-	795,000
Interest and fiscal charges	-	-	-	119,820
Bond issuance costs	-	-	-	-
Total expenditures	<u>1,203,451</u>	<u>413,268</u>	<u>199,415</u>	<u>914,820</u>
Revenue over (under) expenditures	<u>(19,043)</u>	<u>(394,678)</u>	<u>(64,433)</u>	<u>(237,709)</u>
<b>Other financing sources</b>				
Issuance of long-term debt	-	-	-	474,617
Bond premium	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-
Transfers in	19,043	394,678	64,433	-
Total other financing sources	<u>19,043</u>	<u>394,678</u>	<u>64,433</u>	<u>474,617</u>
Net change in fund balances	-	-	-	236,908
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>80,756</u>
<b>Fund balance, end of year</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 317,664</u></u>



Debt Service			Capital Projects	
1996 Debt Service	Durant Debt Service	2001 Debt Service	Durant Capital Projects	Totals
\$ 601,462	\$ -	\$ 2,595,680	\$ 751	\$ 4,334,384
-	-	-	-	81,928
-	-	-	-	796,672
601,462	-	2,595,680	751	5,212,984
-	-	-	-	1,203,451
-	-	-	-	413,268
-	-	-	-	199,415
415,000	-	1,250,000	-	2,460,000
436,345	-	2,321,763	-	2,877,928
-	-	207,865	-	207,865
851,345	-	3,779,628	-	7,361,927
(249,883)	-	(1,183,948)	751	(2,148,943)
454,358	-	17,607,060	-	18,536,035
-	-	1,496,794	-	1,496,794
-	-	(17,088,929)	-	(17,088,929)
-	-	-	-	478,154
454,358	-	2,014,925	-	3,422,054
204,475	-	830,977	751	1,273,111
72,218	-	435,786	40,011	628,771
\$ 276,693	\$ -	\$ 1,266,763	\$ 40,762	\$ 1,901,882

## SINGLE AUDIT

**Willow Run Community Schools**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2005**

Federal Grantor/ Pass-Through Grantor/ Program Title	CFDA Number	Pass- Through Grantor's Number	Approved Award/ Grant Amount	Accrued Revenue, Beginning of Year	Current Year Receipts	Current Year Expenditures	Accrued (Deferred) Revenue, End of Year
<b>U.S. DEPARTMENT OF AGRICULTURE</b>							
Direct Program -							
Food Distribution:							
Entitlement commodities	10.550	81150	\$ 31,330	\$ -	\$ 31,330	\$ 31,330	\$ -
Bonus commodities	10.550	81150	3,629	(2,678)	3,334	3,629	(2,383)
				(2,678)	34,664	34,959	(2,383)
Passed-through Michigan Department of Education:							
2003-04 School Breakfast	10.553	31970	24,857	-	24,857	24,857	-
2004-05 School Breakfast	10.553	41970	211,496	-	194,512	211,496	16,984
				-	219,369	236,353	16,984
National School Lunch:							
2003-04 Section 4	10.555	31950	7,484	-	7,484	7,484	-
2004-05 Section 4	10.555	41950	57,850	-	53,673	57,850	4,177
2003-04 Section 11	10.555	31960	51,396	-	51,396	51,396	-
2004-05 Section 11	10.555	41960	408,630	-	378,555	408,630	30,075
				-	491,108	525,360	34,252
Total U.S. Department of Agriculture				(2,678)	745,141	796,672	48,853
<b>U.S. DEPARTMENT OF EDUCATION</b>							
Passed-through Michigan Department of Education:							
Adult Education Act -							
2003-04 Adult Basic Education - Professional Development	84.002	031140-310643	1,424	(1,424)	(1,424)	-	-
2004-05 Adult Basic Education	84.002	031130-410644	35,867	-	24,060	35,867	11,807
2004-05 Adult Basic Education	84.002	041130-510645	3,445	-	3,445	3,445	-
2004-05 ESL	84.002	041120-5500274	4,000	-	4,000	4,000	-
2004-05 ESL	84.002	051120-5500274	11,100	-	11,100	11,100	-
				(1,424)	41,181	54,412	11,807
2004-05 Title I, Part A	84.010	041530-0304	1,181,055	3,514	119,279	115,765	-
2004-05 Title I	84.010	051530-0405	1,090,957	-	620,487	752,366	131,879
2004-05 Title I, C/O	84.010	041530-0405	84,308	-	39,933	84,308	44,375
2004-05 Title I School Improvement	84.010	041550-0405	50,000	-	4,445	4,445	-
2004-05 Title I Improvement	84.010	031550-0304	43,910	-	43,910	43,910	-
				3,514	828,054	1,000,794	176,254
2004-05 Title V	84.298	050250-0405	22,713	-	-	10,533	10,533
2003-04 Technology Literacy Challenge Title IID	84.318	044290-0304	28,589	(16,917)	-	16,917	-
2004-05 Technology Literacy Challenge Title IID	84.318	054290-0405	27,726	-	22,696	24,119	1,423
2004-05 Technology Literacy Challenge Title IID	84.318	034280-2	112,500	-	112,500	112,500	-
2004-05 Technology Literacy Challenge Title IID	84.318	044280-2	112,500	-	112,500	112,500	-
2004-05 Technology Literacy Challenge Title IID	84.318	044280-3	225,000	-	225,000	225,000	-
2004-05 Freedom to Learn	84.318	054280-4	26,422	-	26,422	26,422	-
				(16,917)	499,118	517,458	1,423
2003-04 Comprehensive School Reform Demonstration	84.332	31870-0304	503,826	84,883	226,166	141,283	-
2003-04 Comprehensive School Reform Demonstration	84.332	31880-0304	148,500	19,982	64,806	44,824	-
2004-05 Comprehensive School Reform Demonstration	84.332	4870-0405	489,017	-	330,711	383,151	52,440
2004-05 Comprehensive School Reform Demonstration	84.332	41880-0405	135,000	-	62,485	80,377	17,892
				104,865	684,168	649,634	70,331
2003-04 Improving Teacher Quality	84.367	30520-0304	67,969	62,161	62,161	-	-
2003-04 Improving Teacher Quality	84.367	40520-0304	304,095	1,078	34,006	32,928	-
2004-05 Improving Teacher Quality	84.367	50520-0405	298,488	-	24,763	88,768	64,005
2004-05 Title II A C/O	84.367	040520-0405	12,233	-	12,233	12,233	-
				63,239	133,163	133,929	64,005

continued...

**Willow Run Community Schools**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2005**  
**(Concluded)**

Federal Grantor/ Pass-Through Grantor/ Program Title	CFDA Number	Pass- Through Grantor's Number	Approved Award/ Grant Amount	Accrued Revenue, Beginning of Year	Current Year Receipts	Current Year Expenditures	Accrued (Deferred) Revenue, End of Year
<b>U.S. DEPARTMENT OF EDUCATION (Concluded)</b>							
Passed-through Michigan Virtual University:							
2004-05 - Freedom to Learn	84.318	n/a	\$ 2,500	\$ -	\$ 2,500	\$ 2,500	\$ -
Passed-through Washtenaw Intermediate School District:							
2003-04 Capacity Building	84.027	10490	7,956	7,823	7,823	-	-
2003-04 IDEA Flowthrough Professional development	84.027	622-0000	3,750	221	221	-	-
2002-03 IDEA Flowthrough Carryover	84.027	2811501	5,528	503	503	-	-
2003-04 IDEA Flowthrough Resource room	84.027	81150605	406,300	119,881	119,881	-	-
2004-05 IDEA Flowthrough Resource room	84.027	81150605	482,035	-	119,421	478,720	359,299
2003-04 IDEA Flowthrough EI classroom	84.027	81150607	160,920	41,514	41,514	-	-
2004-05 IDEA Flowthrough Resource room	84.027	81150607	163,278	-	85,313	163,278	77,965
2004-05 Professional Development	84.027	81150610	10,000	-	-	1,272	1,272
2004-05 Professional Development	84.027	81150622	2,417	-	-	2,417	2,417
				<u>169,942</u>	<u>374,676</u>	<u>645,687</u>	<u>440,953</u>
2003-04 Preschool Incentive	84.173	81150609	25,088	7,513	7,513	-	-
2004-05 Preschool Incentive	84.173	81150609	16,801	-	11,942	15,030	3,088
				<u>7,513</u>	<u>19,455</u>	<u>15,030</u>	<u>3,088</u>
2004-05 Early On	84.181	81150-616	4,597	-	1,456	4,597	3,141
Passed-through Livingston Intermediate School District:							
2003-04 Drug-Free Schools	84.186	n/a	6,603	6,603	6,603	-	-
2003-04 Drug-Free Schools	84.186	n/a	28,309	21,518	21,518	-	-
2004-05 Drug-Free Schools	84.186	n/a	26,729	-	13,075	13,438	363
2004-05 Drug-Free Schools	84.186	n/a	6,789	-	6,789	6,789	-
				<u>28,121</u>	<u>47,985</u>	<u>20,227</u>	<u>363</u>
Total U.S. Department of Education				<u>358,853</u>	<u>2,631,756</u>	<u>3,054,801</u>	<u>781,898</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>							
Passed-through Washtenaw County:							
2003-04 Head Start	93.600	n/a	585,000	143,596	143,596	-	-
2004-05 Head Start	93.600	n/a	544,788	-	374,044	536,496	162,452
Total U.S. Department of Health and Human Services				<u>143,596</u>	<u>517,640</u>	<u>536,496</u>	<u>162,452</u>
<b>Total Expenditures of Federal Awards</b>				<u>\$ 499,771</u>	<u>\$ 3,894,537</u>	<u>\$ 4,387,969</u>	<u>\$ 993,203</u>

1. This schedule is presented on the accrual basis of accounting.
2. Expenditures in this schedule are in agreement with amounts reported in the financial statements and the financial reports submitted to the Michigan Department of Education.
3. The amounts reported on the Recipient Entitlement Balance (PAL) Report agree with this schedule for USDA donated food commodities.
4. The amounts reported on the R7120 (Grants Section Auditor's Report) reconcile with this schedule.
5. Expenditures include spoilage or pilferage.

# **WILLOW RUN COMMUNITY SCHOOLS**

## **NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2005**

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### **1. FEDERAL AWARDS**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of Willow Run Community Schools (the "District"). Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the Schedule.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The reporting entity of Willow Run Community Schools is defined in Note I of the District's basic financial statements.

### **2. BASIS OF ACCOUNTING**

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting which is described in Note I of the District's basic financial statements.



**REHMANN ROBSON**

*Certified Public Accountants*

*A member of* **THE REHMANN GROUP**



**INDEPENDENT AUDITORS' REPORT ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF BASIC FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

September 30, 2005

Board of Education  
Willow Run Community Schools  
Ypsilanti, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **WILLOW RUN COMMUNITY SCHOOLS**, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Willow Run Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### **Compliance and other Matters**

As part of obtaining reasonable assurance about whether Willow Run Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, the Board of Education, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lobson". The signature is written in a cursive style with a large, prominent 'L' at the beginning.



**REHMANN ROBSON**

*Certified Public Accountants*

A member of THE REHMANN GROUP



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR  
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

September 30, 2005

Board of Education  
Willow Run Community Schools  
Ypsilanti, Michigan

**Compliance**

We have audited the compliance of **WILLOW RUN COMMUNITY SCHOOLS** with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Willow Run Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Willow Run Community Schools' management. Our responsibility is to express an opinion on Willow Run Community Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Willow Run Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Willow Run Community Schools' compliance with those requirements.

As described in item 2005-1 in the accompanying schedule of findings and questioned costs, Willow Run Community Schools did not comply with requirements regarding allowable costs that are applicable to its Special Education Cluster and Head Start programs. Compliance with such requirements is necessary, in our opinion, for Willow Run Community Schools to comply with requirements applicable to those programs.



As described in item 2005-2 in the accompanying schedule of findings and questioned costs, Willow Run Community Schools did not comply with requirements regarding special tests and provisions that are applicable to its Child Nutrition Cluster Program. Compliance with such requirements is necessary, in our opinion, for Willow Run Community Schools to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2005.

### **Internal Control Over Compliance**

The management of Willow Run Community Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Willow Run Community Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2005-1 and 2005-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider both of the findings referred to above to be a material weakness.

This report is intended solely for the information and use of the audit committee, management, the Board of Education, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Lehmann Johnson", is positioned in the lower right area of the page.

# WILLOW RUN COMMUNITY SCHOOLS

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2005

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### SECTION I - SUMMARY OF AUDITORS' RESULTS

#### Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

\_\_\_\_\_ yes   X   no

Reportable condition(s) identified  
not considered to be material weaknesses?

\_\_\_\_\_ yes   X   none reported

Noncompliance material to financial statements  
noted?

\_\_\_\_\_ yes   X   no

#### Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

  X   yes \_\_\_\_\_ no

Reportable condition(s) identified  
not considered to be material weaknesses?

  X   yes \_\_\_\_\_ none reported

Type of auditors' report issued on compliance  
for major programs:

Qualified

Any audit findings disclosed that are required  
to be reported in accordance with  
Circular A-133, Section 510(a)?

  X   yes \_\_\_\_\_ no

# WILLOW RUN COMMUNITY SCHOOLS

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

FOR THE YEAR ENDED JUNE 30, 2005

### SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555	Child Nutrition Cluster
84.027, 84.173	Special Education Cluster
84.318	Title IID
93.600	Head Start

Dollar threshold used to distinguish  
between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

\_\_\_\_\_ yes X no

### SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were reported.

### SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

#### 2005-1 Allocation and Certification of Payroll Expenditures – Repeat Finding

Office of Management and Budget Circular No. A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, requires that when employees work on multiple activities, the distribution of their salaries or wages must be supported by personnel activity reports or a statistical sampling system that has been approved by the cognizant Federal agency. The Circular also requires that where employees are expected to work solely on a single federal award, charges for their salaries must be supported by at least semi-annual certifications that they worked solely on that program for the period covered by the certification.

As of June 30, 2005, the District was still allocating payroll charges to several federal programs, including the Special Education Cluster and Head Start Program, which were not supported by direct timekeeping, personnel activity reports, or other acceptable documentation as required by federal regulations. Instead, the charges were allocated to federal programs based on program budgets and management estimates. While the amounts allocated to individual programs may indeed closely approximate the actual time spent by District employees on these functions, this method of payroll allocation is not consistent with federal guidelines, and creates the risk that amounts allocated could vary substantially from actual costs incurred.

# **WILLOW RUN COMMUNITY SCHOOLS**

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Concluded)**

**FOR THE YEAR ENDED JUNE 30, 2005**

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### **2005-1 Allocation and Certification of Payroll Expenditures (Concluded)**

In addition, the District still did not require employees that work solely on a single federal award to sign semi-annual certifications that they worked solely on that program.

This represents the fifth consecutive year that this finding has been identified in the District's single audit, and corrective action has not yet been taken. Accordingly, we have reported this as a material weakness in internal control, and qualified our opinion over the District's compliance with federal grant requirements.

No costs were questioned in the current year as a result of this finding.

### **2005-2 Child Nutrition Cluster – Special Tests and Provisions**

The District administers its Child Nutrition Cluster programs (National School Lunch and Breakfast) as a subrecipient of the Michigan Department of Education (MDE). Accordingly, the District is subject to special regulatory provisions imposed by MDE on the administration of this federal award. In its 2004-2005 School Auditing Manual, MDE indicates that certain activities relating to the administration of the Child Nutrition Cluster are to be performed by school district personnel, rather than employees of a food service management company.

Our testing of the District's National School Lunch program identified that eligibility determinations for free and reduced lunches, the verification of selected applications, and the required annual on-site reviews of the District's food service locations were performed by food service management company personnel and then stamped with the signature of a District employee to give the appearance of compliance with the requirements set forth by MDE.

Accordingly, we have reported this as a material weakness in internal control, and qualified our opinion over the District's compliance with state grant requirements.

No costs were questioned in the current year as a result of this finding.

## **SECTION IV – PRIOR YEAR FINDINGS**

Finding 2004-1 has been repeated as Finding 2005-1.

\* \* \* \* \*



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



September 30, 2005

To the Board of Education of the  
Willow Run Community Schools  
Ypsilanti, Michigan

We have audited the financial statements of **Willow Run Community Schools** for the year ended June 30, 2005, and have issued our report thereon dated September 30, 2005. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133**

As stated in our engagement letter dated May 25, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Willow Run Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Willow Run Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Willow Run Community Schools' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Willow Run Community Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Willow Run Community Schools' compliance with those requirements.

### **Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Willow Run Community Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Willow Run Community Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Willow Run Community Schools' financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Willow Run Community Schools, either individually or in the aggregate, indicate matters that could have a significant effect on Willow Run Community Schools' financial reporting process.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Willow Run Community Schools' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

# **Willow Run Community Schools**

## **Comments and Recommendations**

**For the Year Ended June 30, 2005**

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During our audit we became aware of certain issues regarding internal control and financial reporting. This memorandum summarizes our comments and suggestions regarding these matters. This memorandum does not affect our report dated September 30, 2005 on the financial statements of Willow Run Community Schools.

### **Internal Controls – Segregation of Duties**

Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the District's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances.

As is the case with many organizations of similar size, the District lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal controls carries with it a greater risk of fraud and abuse.

As stated previously, the establishing and maintaining of internal controls is the responsibility of management. As the District's independent external auditors, we are specifically banned by professional standards from performing any management functions. In other words, the annual audit is not a part of the District's internal control structure, and cannot not be relied upon as part of *management's* systems to deter or detect fraud and abuse.

While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.



# **Willow Run Community Schools**

## **Comments and Recommendations**

**For the Year Ended June 30, 2005**

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### **Fund Balance / Net Assets**

In the current year, the fund balance of the District's general fund decreased by \$2,276,492 to \$194,269, or approximately 0.6% of its total expenditures and transfers out for the year. This loss was nearly \$1.8 million more than budgeted by the Board of Education, and appears to have principally been the result of revenue estimates that were significantly higher than the amounts actually received.

While the District's total fund balance in the general fund is positive, amounts already expended at year end for prepaid expenditures and inventories amounted to \$243,333, and amounts designated for adult education total \$100,795, leaving an unreserved fund deficit of \$149,859. Obviously, this is a potential cause for concern for the District, as a healthy fund balance is necessary for the proper financial administration of any government, and fund deficits are not permitted under State law.

From a government-wide perspective, the District's total net assets amounted to a deficit of \$14,770,293, including an unrestricted deficit of \$162,609. This means that the District's current and long-term liabilities exceed its assets, which could bear unfavorably on the District's credit rating and its ability to issue long-term debt in the future.

We recommend that the Board of Education, working together with management, develop a plan to rebuild the District's fund balance and net assets to appropriate levels.

### **Borrowings from the School Bond Loan Fund**

During the current year, the District borrowed \$2,736,035 from the School Bond Loan Fund to help make the required payments on its outstanding bonded debt. However, inclusive of this borrowing, the District's debt service funds posted a net increase to fund balance of more than \$1.2 million for a combined ending fund balance of more than \$1.8 million. It appears that this was the result of computational errors made in the determination of the District's cash needs.

However, despite the significant amount of fund balance in the debt service funds, the actual cash balance of these funds at June 30, 2005 was only around \$4,000. This is because virtually all of the funds' surplus cash was initially deposited to the general fund, where it was used to cover current operations rather than transferred to the appropriate debt service funds. Given the general fund's poor financial position described above, this cash was needed for general operations, and the fact that the required transfers did not occur was not discovered until after year end.

This raises two concerns: (1) the District is now incurring greater interest charges on excess borrowings from the School Bond Loan Fund, and (2) the general fund was only able to meet its short-term cash needs by borrowing from funds that would not ordinarily have had any balances from which to borrow. We recommend that the District consult with its bond counsel to determine whether any amounts should be repaid to the School Bond Loan Fund, and then seek other means for financing its short-term operations, as appropriate.